

ECONOMICAL FINANCIAL OPERATIONS IN
GOVERNMENT
THE MILITARY SEA TRANSPORTATION SERVICE
UNDER THE
INDUSTRIAL FUND-TYPE OF OPERATION

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INTRODUCTION

AUTHORITY FOR INDUSTRIAL FUND TYPE OF OPERATIONS
IN A GOVERNMENTAL ACTIVITY

On August 10, 1949, the President of the United States approved an act to reorganize fiscal management in the National Military Establishment to promote economy, and for other purposes. Officially this Act is designated as Public Law 216 - 81st Congress. What it actually means to the people of the United States is that for the first time in our history, an honest effort has been made to put the operations of the Department of Defense and its multiple components on a sound basis of financial operations. In enacting this legislation, it was the intent of Congress to provide a comprehensive program for the future security of the United States, and to provide for the establishment of integrated policies and procedures for the departments, agencies, and functions of the Government relating to the national security.

Sec. 405 of this Act authorized the Secretary of Defense to establish working-capital funds in order to more effectively control and account for the cost of programs and work performed in the Department of Defense for such industrial-type activities, and for such commercial-type activities as provide common services within or among the departments and agencies of the Department of Defense. The act further provided that these funds shall be charged, when appropriate, with the costs of stores, supplies, materials, and equipment procured or otherwise acquired,

manufactured, repaired, issued, and consumed and of services rendered or work performed, including applicable administrative expenses; and reimbursed from available appropriations or otherwise credited for the cost of stores, supplies, materials, or equipment furnished and of services rendered or work performed, including applicable administrative expenses.

Sec. 407 of this Act further provided for an adjustment of accounts when under authority of law a function or an activity is transferred or assigned from one department or agency within the Department of Defense to another such department or agency. Balances of funds so transferred were credited to the applicable appropriation accounts of the department or agency to which the activity was transferred, and were merged with funds in existing accounts as appropriate with the resultant balance appearing as one single fund for the operation of the function or activity under the industrial fund-type of operation.

Sec. 408 of the Act authorized reimbursements to be made and sums paid by or on behalf of personnel of any department or organization for services rendered or supplies furnished with proper credit to other accounts.

The importance that Congress attaches to this Act, and the economical operation of activities under the Department of Defense in particular, was evidenced by public hearings before the Preparedness Subcommittee No. 3 of the Committee on Armed Services, United States Senate, on November 2, 3, and 4, 1953. In his opening remarks at these hearings, Senator Ralph E. Flanders,

Chairman of the Preparedness Subcommittee No. 3, stated:

Our job is to inquire in these two days into the extent to which the law has been put to work since 1949 and the result of its use in terms of efficiency and economy. Let the record be clear. We do not write this off as a simple problem. We realize that the national defense is a most pressing problem. We devote tremendous amounts of our manpower and wealth to it. We want to insure that we work efficiently, that we spend wisely; that we buy what we need and that we know what we have in our inventories. Business managers have to adhere to these rules. Our defense people must be in a position to give us the necessary guarantee of protection at the lowest cost in men and money.

Recognizing the size of the task, the Congress, in August 1949, passed title IV which Secretary McNeil described as follows:

"This title really provides the machinery for placing the operations of the military services on a more businesslike basis.

No complete system was ever established - bits and pieces have been provided at times, but this is the first attempt, I think, to provide on an overall basis for businesslike operations."

The importance of the legislation was dramatically underlined by its endorsement by former President Herbert Hoover, Mr. Bernard M. Baruch, Louis Johnson, Secretary of Defense at the time of adoption of title IV, and by many other outstanding Americans.¹

Senator Flanders in his remarks before these hearings noted the awareness of Congress of the magnitude of the task of effecting financial reform in an organization the size of the Department of Defense, and at the same time carrying on the immense routine operations of the Department. That the financial organization of the Military Sea Transportation Service as patterned upon the provisions of the National Security Act of 1947, as amended, is sound and supports the benefits to be derived from financial reform in the military services is attested by the fact that although starting independent operations in

¹Report of Hearings before the Preparedness Sub-committee No. 3 of the Committee on Armed Services, United States Senate, Eighty-Third Congress, First Session on Implementation of Title IV National Security Act of 1947, as Amended, November 2, 3, and 4, 1952.

early 1950, it was able to successfully support the logistic requirements suddenly forced upon the armed services by the outbreak of hostilities in Korea, and at the same time effect savings to the Government of over \$100 millions in the first year of operation. The savings in dollars noted above were particularly stressed in the testimony of the Hon. Robert A. Lovett, former Secretary of Defense from September 17, 1951 to January 20, 1953.

On July 1, 1951, the Military Sea Transportation Service went under the industrial fund-type of operation, and now operates in full accordance with the provisions of the National Security Act of 1947, as amended. Its lines of organization and authority are clear, its accounting procedures and processes are such that the source and application of funds are readily discernable, and its operation is efficient and economical.

CHAPTER I

HISTORICAL BACKGROUND OF MSTS

The Military Sea Transportation Service is an integral part of the U. S. Navy with an organization similar to that of a Task Fleet, and operating under the command of the Chief of Naval Operations. It came into being on 1 October, 1949, when it took over the operations theretofore conducted by the Naval Transportation Service, which included naval transports, cargo ships and tankers, the majority of the latter being operated by private contractors on a cost-plus-a-fixed-fee basis.

On 1 March, 1950, in accordance with the provisions of a directive of the Secretary of Defense dated 2 August, 1950, MSTS assumed the ocean operations formerly carried on by the Transportation Corps, Department of the Army, in the Zone of the Interior as embodied in numerous ships and direct shore support functions conducted at Brooklyn, N. Y., New Orleans, La., San Francisco, and Oakland, Calif., and Seattle, Wash.

On 1 July, 1950, MSTS assumed similar operations formerly conducted by the Department of the Army overseas, chiefly at Bremerhaven, Germany, Balboa, C. Z., Honolulu, T. H., and Tokyo, Japan. On 1 November, 1950, similar operations along the Aleutian peninsula with a main base at Kodiak, Alaska were taken over by MSTS.

In addition to the above specified areas, MSTS now exercises control over ocean transport and shore support functions for Government sponsored passengers and cargo in

England, France, Italy, Porto Rico, Guam, and the Philippine Islands. Additionally, the Korean effort and its associated cooperation with other members of the United Nations has led MSTS to engage in transport operations, primarily of troops, from Greece, Turkey, Belgium, The Netherlands, Canada, Ethiopia, and Siam (Thailand). MSTS ships are also engaged in United States support of such areas as Formosa and Hong Kong. The Military Sea Transportation Service is not just another activity of the Navy Department; it is a service that renders support to all agencies of the United States Government in an economical, efficient, and reliable manner. And credit for making possible such an unprecedented undertaking must be given to the National Security Act of 1947, as amended.

The Chief of Naval Operations in a directive dated 9 November, 1950, stated that the primary mission of the Military Sea Transportation Service was to provide under one authority, control, operation and administration of sea transportation for personnel and cargo of the Department of Defense (excluding that transported by units of the Fleet) and as authorized or directed for other government agencies of the United States. Due to the provisions of the National Security Act of 1947, as amended, the Military Sea Transportation Service has been able to carry out these commitments with resultant savings to the Government of hundreds of millions of dollars.

In accordance with the provisions of Section 401 of the National Security Act of 1947, as amended, the position of

comptroller, Military Sea Transportation Service was established with the following assigned responsibilities:

- a. Budgeting
- b. Financial Transactions
- c. Accounting
- d. Internal Auditing
- e. Statistics (Operational, Financial, Accounting, etc.)
- f. Tarriiff Rates applicable to the Shipping Services

Also in compliance with the intent of the provisions of the National Security Act of 1947, as amended, it is the continued policy of the Military Sea Transportation Service to attach comptrollers to all MSTS subordinate commands because operation of ships and chartering agencies generate the major volume of financial transactions which in turn require careful accounting, financial and statistical treatment. The fundamental reason for this is that like in any large business corporation, the field agencies of MSTS are charged with conducting these financial operations, and therefore must be responsible for the economical and efficient results of same.

Regulations issued by the Department of Defense covering the operation of working-capital funds for industrial- and commercial-type establishments provide that each type of establishment shall have a cost accounting system 'custom built' for its operation. This system shall observe the accrual basis of accounting and shall employ the double-entry method of bookkeeping. Books and records of accounts and documents supporting trans-

actions shall be kept at the offices of the various establishments operated under the industrial funds.

The Military Sea Transportation Service has set up and follows an accounting system that complies with the operational requirements of MSTS as well as the provisions of the effective regulations. The system is designed to take fullest advantage of mechanical aids where the volume of transactions warrants their utilization. In the interest of continually fulfilling the requirements of Congress, MSTS realizes that no accounting system can remain static. Changes in methods of operations, improvements in mechanical aids, experience, and changes in the requirements effecting utilizing of accounting data all have some effect on the system. It is, however, the policy of MSTS to treat such changes as changes in procedure rather than in the principles set forth in the National Security Act of 1947, as amended.

Considerable discussion could be devoted as to why the Military Sea Transportation Service was brought into being. It seems suffice to state, however, that in the interests of economy there should be some central agency charged with the responsibility of transporting government cargoes throughout the world via ocean methods of transportation. In accordance with the authority contained in the National Security Act of 1947, as amended, the Hon. Louis Johnson, Secretary of Defense, on 2 August, 1949, issued a directive which specifically prescribed:

Pursuant to the authority vested in me and in the interest of greater efficiency and economy, there is hereby established within the National Military Establishment, under the direction

and control of the Department of the Navy, a unified sea transportation organization to be known as the Military Sea Transportation Service, which shall have the purpose, composition, authority and responsibility hereinafter described.

The MSTS is established in order to provide, under one authority, control, operation and administration for personnel (including the transportation of sick and wounded), material (including petroleum products), mail and other cargoes for all agencies or departments of the National Military Establishment (excluding personnel and cargo transported by units of the fleet) and as authorized or directed for other government agencies or departments of the United States subject to established priorities.²

The specific responsibilities assumed by MSTS that more directly concern financial transactions and economical operation may be summarized briefly as follows:

a. The establishment, control, and administration of organization units ashore, worldwide, necessary for the administration and operation of MSTS. In this connection MSTS makes the fullest use of existing facilities of all of the three Services in order to promote and effect the maximum economy of operation. The setting-up of MSTS did not result in the creation of duplicating facilities or services. Rather it acted in the reverse in accordance with the intent of Title IV of the National Security Act of 1947, as amended.

b. The procurement of vessels outside of the MSTS fleet by bareboat, time and voyage charter, and the procurement of space in commercial shipping as necessary. Previous to the establishment of MSTS, the three Services, and other agencies of the Government, acted independently to obtain shipping facilities

²Directive of the Secretary of Defense dated 2 August 1949, establishing the Military Sea Transportation Service.

required over and above those immediately owned or controlled by the Government which independent action resulted in non-uniform rates and, in general, increased cost to the Government for services rendered.

c. The establishment of an adequate system for reporting requirements for transportation of passengers and cargo within the three Services, and for such other operational information as considered by MSTS to be necessary for the efficient employment of MSTS vessels, and for the chartering of commercial vessels and the procurement of commercial shipping space. This follows directly standard practices of commercial shipping companies, and economy of operation can never result without adequate reporting of requirements.

d. The control and administration of maintenance, repair and alterations of all government owned vessels assigned to MSTS plus the maintenance and repair of vessels under bareboat charter. This feature of MSTS operation places MSTS in the position of being able to select and determine the most economical means of maintenance and repair of ships used in the operation, and has resulted in considerable savings and economy of operation. Likewise this follows standard commercial shipping practice, although it has not on several occasions been politically popular. There have been instances where thousands of dollars have been saved upon an alteration or repair contract by moving a ship temporarily from one coast to another to take advantage of lower costs. This is of course in the interest of economy of operation to the Government, but generally results in political reaction

from the coast that did not get the contract.

e. The development and maintenance, in consonance with policies and procedures approved by the Office of the Secretary of Defense and the Department of the Navy, of such cost accounting records and operational statistics as will reflect the degree of efficiency and economy of the operations conducted by MSTs and show the utilization of funds, manpower, and equipment assigned to MSTs. A general discussion of these procedures is, however, beyond the scope of this paper. Suffice to state, that they follow sound commercial practice, indicate clearly the source and utilization of funds, and report regularly on the state of operation to interested agencies of the National Military Establishment. One very interesting feature of the financial operation of the MSTs since it went under the Navy Industrial Fund type of operation on 1 July, 1951, is that operations are for cost and not for profit as would be the case in a strictly commercial type of operation. The present type of financial operation employed by MSTs does not, however, set aside reserves for replacement of its capital assets, namely the ships, as would be commercial practice. The writer believes that this defect in financial operation should be remedied, possibly by eventual adoption of a type of operation similar to that set up for the Panama Canal Company on 1 July, 1951, by Public Law 808, 80th Congress; Public Law 841, 81st Congress; and Executive Order 10236 of 1 July, 1951. The pertinent features considered are that the Panama Canal Company is not only expected to be self-sustaining, but is expected to pay the cost of interest on the net

investment, and fix tolls at a rate calculated to cover the cost of maintaining and operating the Panama Canal including depreciation. Such a change in MSTIS operation probably would be legally difficult and could result in the creation of a distinctly separate agency inasmuch as title to MSTIS government-owned shipping is now held by the Department of the Navy. Another disadvantage to such a change is that continuance of operation of MSTIS as a military controlled operation would probably be difficult, and might jeopardize further economies. One answer might be the creation of a separate and distinct Transportation Corps that would operate independently to serve the three Services as MSTIS now does. However, such a move would undoubtedly result in strong political reaction based upon the interests of commercial shipping.

f. The preparation of budgetary and other fiscal requirements of MSTIS as coordinated with participating agencies in accordance with directives of the Secretary of Defense on fiscal matters. This responsibility is extremely important in MSTIS financial operations because MSTIS is reimbursed for its services out of funds that must be budgeted by and appropriated for the three Services. Thus MSTIS sets its rates not only at a figure that will insure its ability to stay within its own budget (total of funds made available for operation under the Navy Industrial Fund) but at a figure that has been forecast in such a manner that it is reasonable to expect that it will not have to be changed within the fiscal period covered by the appropriations made to the three Services. If these conditions are not met by MSTIS, the only

alternatives are for MSTS to request additional funds for operations or for the three Services to take some similar action, neither of which alternatives are desirable or reflect sound fiscal management. It is gratifying at this point to note that in the history of its operation, MSTS has not found itself in this dilemma which certainly reflects to the credit of MSTS financial operation.

g. The administrative control of funds received by transfer, by reimbursement, or received in payment for services rendered in consonance with policies directed by the Secretary of Defense. This is strictly in accordance with commercial practice and is generally followed by large corporations in which the various subsidiary divisions maintain their own financial control in consonance with overall policies directed by the parent corporation which in this comparison would be the Department of Defense. This element of single control over all funds required for the common operation, regardless of source, is certainly responsible for much of the resultant economy of operation and general savings of funds to the Government. Such control also makes possible true performance type of budgeting with accompanying adequate control of operation. In particular emphasis of this point, VAdm. William M. Callaghan, former Commander, Military Sea Transportation Service, in speaking before the 32nd Annual Meeting of the American Petroleum Institute at Chicago, Illinois on 10 November, 1952, stated:

It is this fund which finances our operations until such time as collections can be made from MSTS customers, the Army, Navy, and Air Force, for services rendered. The expense of our

operations, with but few exceptions, is no longer hidden in the appropriations of the three military departments, but is readily computable and made available in our financial statements. It can readily be appreciated that where the Comptroller of the Department of Defense, the Comptrollers of the Army, Navy and Air Force, members and committees of Congress, and the Bureau of the Budget are closely scrutinizing the costs involved, MSTS has more than average inducement to operate economically and efficiently.

Historically, from the financial point of view, the inception and implementation of the Military Sea Transportation Service based upon the provisions of the National Security Act of 1947, as amended, has resulted in the following points that has enabled the Department of the Navy acting through MSTS to effect considerable economies in the transportation field for the Department of Defense as a whole.

a. The Navy, for the first time, has control of all merchant-type shipping owned by the military. This in effect means that uniform standards of operation, administration, maintenance and repair, etc., have been able to be adopted, with all the ensuing advantages to efficiency, economy, and state of operational readiness.

b. The elimination of overlapping and duplication of ocean transportation functions between the Army and the Navy, and the consolidation of routes and schedules, has not only saved the Department of Defense an enormous amount of money, but has resulted in the greater availability of assigned shipping, thus increasing capabilities.

c. A single military sea transportation agency of the size of MSTS is able to obtain much lower rates from the shipping industry and to control to an appreciable extent the shipping market. This

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also results in extensive savings to the Department of Defense and a substantial contribution to the national economy.

d. The relationship between the military services and the American merchant marine is now an extremely close, practical, and mutually advantageous one, in contrast to the previous nebulous liaison existing when more than one agency had responsibility for ocean transportation. This, in part, is due of course to the power of the Department of Defense dollar, but is also due in greater part to a better appreciation on the part of a single responsible agency for ocean transportation of the relationship which must exist with the maritime industry upon whose support the military services is so dependent in discharging logistic responsibilities in time of war or national emergency.

CHAPTER II

FINANCIAL OPERATIONS OF THE MILITARY

SEA TRANSPORTATION SERVICE UNDER THE NAVY INDUSTRIAL

FUND TYPE OF OPERATION

Section 405 of the National Security Act of 1947, as amended, authorized the Secretary of Defense to establish working-capital funds in the Department of Defense for the purpose of providing working capital for commercial-type activities providing common services within or among the departments and agencies of the Department of Defense. Because of the basic mission of the Military Sea Transportation Service, namely, the operation of a point-to-point ocean transportation service primarily for the components of the Department of Defense, MSTS obviously qualified as defined in the regulations contained in the Act. Previous experience of the MSTS had clearly established the fact that it was in the best interests of the Government and MSTS to ascribe financial responsibility for ocean transportation services to the utilizers of MSTS services. It was also determined that commercial-type activities operating under the industrial fund in each department would be better able to more effectively discharge their responsibilities by the separate financing of their operations, and by budgeting and accounting according to commercial methods, rather than by the previous and more cumbersome methods of appropriation accounting.

The theory of operations under an industrial fund is not

unlike operations under other well-known revolving funds such as the Naval Procurement Fund. Expenditures from the fund are for the purpose of converting raw materials into finished products for re-sale or for rendering services. These are then sold at a price which, when paid for by the recipients, will restore the fund to its original status. During interim periods of operations, and prior to complete liquidation, the fund generally will consist of Cash, Accounts Receivable, Inventories, and Deferred Charges to Operations, which are offset by amounts owing to others for expenses incurred in the performance of the mission. The amount of cash required is dependent upon both volume of business and the time required to complete the cycle of produce-sell-bill-collect-deposit. It follows, therefore, that unit costs of production or unit costs of rendering services in excess of unit selling prices will dissipate the fund. Likewise, any material increases in stock levels over those planned or any delinquency in the collections for goods sold or services rendered will tend to reduce the cash available to meet payrolls and other operating commitments. In short, for MSTs to operate successfully under the industrial fund requires consistent application of sound business principles and strict adherence to planned objectives.

An initial amount of \$100 millions cash was received by MSTs to commence operations under the Navy Industrial Fund which amount was predicted on the estimated cost of operating for ninety days based on the revised Fiscal Year 1952 budget.

To date this original estimate has proven correct, and due to sound financial management no changes have been necessary.

The following steps comprise the complete cycle of MSTs financial operations under the Navy Industrial Fund since the incorporation of MSTs under this type of operation.

a. MSTs receives from the three Services the estimated lift (personnel and cargo) for a given period, segregated by classes.

b. MSTs translates these lift estimates into the number of ships, charters, personnel, and other facilities required to effect the lift.

c. MSTs estimates (budgets) the cost of performing the lift using data compiled in step b.

d. MSTs distributes the estimated total cost (including pro-ration of overhead) to classes of services to be rendered, i.e., passenger, various dry or refrigerated cargo, and petroleum products.

e. MSTs divides the units of lift into the respective costs of effecting the various classes of lift, thus establishing the tariff rates for subsequent billing purposes.

f. MSTs publishes its tariff rates to the three Services, which they in turn apply to the estimated lift originally submitted to MSTs and then determine the aggregate estimated cost of ocean transportation for inclusion in their respective budgets.

g. The three Services then justify and receive approval (or revision) of their budgets, which include ocean transportation, through the prescribed normal channels from the Congress. In this

step MSTS lends such assistance as may be necessary in the justification of ocean transportation rates because of their intimate day-to-day association with such matters.

h. Because any material fluctuation in the funds appropriated in relation to original budgets will have a marked effect on the lift finally offered MSTS, the three Services than notify MSTS of their requirements revised to coincide with funds finally made available to pay for the services.

i. MSTS then reviews its facility and personnel requirements in the light of the revised information contained in step h.

j. MSTS is then offered and effects various classes of lift through the operation of its ships or through commercial charters in such a manner that the costs may be provided and accounted for within the limitations of funds available for operations.

k. MSTS then at the end of each month bills the individual Services at the prescribed rates for the lift actually effected. Certain "penalty" items as approved for delays or lifts not effected because of failure of the shipper Service to have the material, etc. available are also collected for, if MSTS has made available the required shipping at the time and place previously agreed upon.

l. The parties at interest then execute Standard Form 1080, by which MSTS is reimbursed for services rendered, and the cycle is completed.

It is interesting to note that in addition to the

benefits derived from a double entry system of accounting on an accrual basis, the steps involved in MSTs financial operations differ from similar operations under a Management Fund in that:

- a. MSTs provides unit costs to the three Services in lieu of aggregate dollar costs, and
- b. MSTs receives payment from the three Services after effecting the lift instead of receiving quarterly, in advance, the estimated cost of lift to be effected as under the older appropriation allotment system.

In carrying out the financial operations specified above, the Commander, Military Sea Transportation Service, is assisted by an officer designated as the Comptroller, who functions in accordance with the requirements of Title IV of the Security Act of 1947, as amended, as follows:³

a. Comptroller

Advises COMSTS and other officials of MSTs on all matters relating to finance, budgeting, accounting, auditing, statistics, tariffs, and business administration. He is responsible for the technical supervision of the organization and procedures relating thereto, both at COMSTS and at subordinate commands through regular command channels. He is responsible for prescribing the accounting system employed by MSTs, the maintenance of the general books of account and the rendition of all financial, accounting, cost and statistical reports as well as the analysis and evaluation of such data. He is charged with the establishment of policies and procedures relating thereto consistent with basic

³Comptroller Handbook, MSTs, 11 May, 1951

policies of the Department of the Navy and the Department of Defense. He will maintain necessary liaison with functional components of the Department of the Navy and other Government agencies on matters under his cognizance.

Assisting the Comptroller at MSTs are a Deputy Comptroller, who in the case of MSTs, is a civil service officer, and other officers (both civilian and military) heading up the following branches:

a. Internal Control Branch

Develops and supervises a system of internal control, and conducts audits at COMSTS and in the field to insure the accuracy and fidelity of MSTs accounting and statistical reporting.

b. Budget Branch

Formulates instructions governing format and content of budgetary materials, relating thereto operating plans, statistical data, and financial estimates; coordinates, reviews, and prepares the MSTs budget; establishes MSTs tariff rates; and conducts periodic analyses to determine the degree to which performance is conforming to budgetary planning.

c. Statistics and Analysis Branch

Develops and installs and operates statistical reporting systems for financial and other data, including traffic billing; prepares necessary interpretative and other supporting material; formulates and advises on statistical reporting techniques and procedures; and operates tabulating machines for MSTs.

d. Accounting Branch

Prepares, processes, and records all accounting transactions at MSTS (except for cash); maintains general books of account; prepares financial reports for the entire MSTS; and formulates and advises on accounting procedures and policies.

e. Disbursing Branch

Performs all disbursing functions at MSTS; formulates and advises on disbursing policies and procedures, and assists subordinate commands in the discharge of the disbursing functions.

The writer has inferred throughout this paper that the Military Sea Transportation Service follows standard commercial practice in financial operations and in support thereof offers the following from a definitive concept of the duties of the comptroller of a major commercial operation as set forth by Mr. George L. Hall of the Standard Oil Company of California, who states that the Comptroller is responsible for the following duties and functions:

a. As a staff member of management, the Comptroller is charged with advising the President and furnishing functional guidance to the General Managers of the Divisions on accounting, auditing, the budget, the preparation and payment of payrolls, tax matters, the compilation of statistics, and office methods and procedures, and with conducting such activities for the Managers of the staff departments.

b. Within the limits of his approved program and corporate policies and control procedures, the Comptroller is responsible for, and has commensurate authority to accomplish the fulfillment of the duties set forth below. He may delegate to members of his Department appropriate portions of his responsibilities together with proportionate authority for their fulfillment, but he may not delegate or relinquish his overall responsibility for results nor for any portion of his accountability.

c. He will formulate, or receive and recommend for approval, proposals for policies on accounting, auditing, the budget, the preparation and payment of payrolls, tax matters, the compilation

of statistics, and office methods and procedures, and will administer such policies when approved.

d. He will establish and administer procedures pertaining to accounting, auditing, the budget, the preparation and payment of payrolls, tax matters, the compilation of statistics, and office administration.

e. He will supply services pertaining to accounting, auditing, the budget, the preparation and payment of pay rolls, tax matters, and the compilation of statistics to the Managers of the staff departments.

f. He will prepare and maintain the Company cost accounting books and such other records as are necessary to the accomplishment of his function.

g. He will prepare the principal financial statements of the Company.

h. He will consolidate the proposed annual budgets of the organizational components of the Company into the proposed annual Company budget, and will prepare recommendations thereon.⁴

A comparison of the functions of the Comptroller of a major commercial operation and that of the Comptroller of the Military Sea Transportation Service clearly indicates that MSTTS is carrying out its operation in accordance with sound business type of operation principles in accordance with the intent of Title IV of the National Security Act of 1947, as amended, and that the economies effected for the Government may be attributed to the sound financial management of the Military Sea Transportation Service.

⁴The Management Guide, George L. Hall, Standard Oil Company of California, San Francisco, Calif. 1948

CHAPTER III

SCOPE OF MSTs OPERATIONS

For a proper assessment of the economies effected and the efficiency of operation of MSTs, a brief examination of the scope of business (services rendered) done by MSTs in recent years attests to the soundness of the Industrial Fund-Type of operation. As previously noted, the MSTs accounting system is patterned after that which is followed by the commercial shipping industry, and utilizes the accrual method of accounting and double entry bookkeeping. This method of keeping accounts reflects expenses incurred and income earned for a given period, although such expenses may not have been actually paid or the income received in that period. These accrual figures are considered to be more realistic, more accurate, and to provide more usable cost information to management than those that are available under the appropriation accounting system.

The scope of business of MSTs during the fiscal year 1951 is indicated by the following statistics:⁵

- 1,744,438 troops and other passengers associated with the military departments carried worldwide.
- 20,138,179 measurement tons of dry cargo of all categories lifted worldwide.
- 13,250,396 long tons of bulk petroleum products lifted worldwide.

During the fiscal year 1952, which represented a full year of accelerated operations largely due to the Korean situation.

⁵Information provided by the Comptroller, MSTs.

this scope of business increased to the following:

2,435,500 troops and other passengers associated with the military departments carried worldwide.

27,965,625 measurement tons of dry cargo of all categories lifted worldwide.

14,461,505 long tons of bulk petroleum products lifted world wide.

The total operating cost of MSTS for Fiscal Year 1951 was \$547,864,870. This does not include \$11,330,053 incurred for the International Relief Program.

In Fiscal Year 1952 the operating costs, due to increased volume, increased to \$638,881,293, not including \$5,159,456 for the operations of the IRO program.

62% of the total expenditure in Fiscal Year 1952 was made for the transportation of cargo, 16% for petroleum and 22% for troops and other passengers associated with the military departments.

In the operation of MSTS, it is important to note that, while the MSTS is an integral part of the Navy, 88% of the funds it expends comes from the appropriations of other Departments; for example, in Fiscal Year 1952, the Army contributed 73%, or \$466,519,661, and the Air Force 15%, or \$95,506,465. The Navy contributed 11%, or \$72,121,828. In addition 1%, or \$6,733,339 was received from other sources. COMSTS, therefore, is placed in the position of a "trust officer" for the expenditure of appropriated funds of the three Services. This fact imposes a serious responsibility to insure that all expenditures are

thoroughly justified, and are made in the most efficient and economical manner possible, and without the tools made available by the National Security Act of 1947, as amended, this could not have been accomplished.

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January, 1954

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